

1 DAUFUSKIE ISLAND UTILITY COMPANY, INC.

2 DOCKET NO. 2014-346-W/S

3 Rehearing Rebuttal Testimony of Gary C. White

4 Before the South Carolina Public Service Commission

5 Testimony Prepared: November 29, 2017

6 Hearing Date: December 6, 2017

7
8 **Q. Please state your name and business address.**

9 A. Gary White, 17369 S.E. 111th Court, Summerfield, Florida 34491.

10
11 **Q. Did you submit direct testimony in this remand case?**

12 A. Yes. I provided direct testimony, rebuttal testimony, and exhibits in the primary
13 case. I also testified before the Commission at the hearing on October 28, 2015. I
14 have more recently provided prefiled testimony for consideration of the current
15 proceeding.

16
17 **Q. Have you reviewed the direct testimonies submitted on behalf of the Office of**
18 **Regulatory Staff (“ORS”), and the Haig Point Club and Community**
19 **Association, Inc., Melrose Property Owner’s Association, Inc. and Bloody**
20 **Point Property Owner’s Association (“Intervenors”)?**

21 A. Yes. I focused my attention on the testimony and exhibits of ORS witness Mr.
22 Daniel Sullivan. I also did a cursory review of the testimonies of the other witnesses
23 for ORS and Intervenors.

1

2 **Q. Please summarize the issues you will address in your rebuttal testimony?**

3 A. My rebuttal testimony will speak to issues within the ORS's treatment of
4 accumulated depreciation. My rebuttal testimony will supplement John Guastella's
5 rebuttal testimony which will address the major issues in this case.

6

7 **Q. Before addressing your specific issue, do you have any overall concerns with**
8 **the adjustments proposed by Mr. Sullivan and ORS?**

9 A. Yes. The calculations forming the basis of Mr. Sullivan's testimony appear to
10 include errors and improper analysis.

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12 **Q. Can you provide some examples?**

13 A. Yes. I will provide them in a list for ease of reference.

14 1. The Plant-in-Service balances shown by Mr. Sullivan are in conflict with
15 the amounts shown on the Company's books and records.

16 2. ORS's discovery responses indicate Mr. Sullivan concluded that "Based on
17 review of work papers and exhibits filed in this docket, it appears plant in service
18 and depreciation expense were calculated as of December 31, 2014 and include no
19 plant additions subsequent to December 31, 2014". That is not an accurate
20 conclusion. The recently filed Exhibit GCW-R1 include Schedules W-B.2 and S-
21 B.2 (Plant in Service); Schedules W-B.3 and S-B.3 (Accumulated Depreciation);
22 and Schedules W-B.4 and S-B.4 (CIAC and CIAC Amortization) clearly reflect an
23 additional pro forma 12/31/15 calculation.

1 3. ORS continues to roll-forward conflicted account balances.

2 4. There are instances in ORS's work papers where beginning balances appear
3 to be arbitrary. For example, Ms. Christina A. Stutz's (ORS) recommendation in
4 the prior case included capitalized "Organization" costs of \$41,185 which do not
5 appear in ORS's current plant costs. In addition, Mr. Sullivan's plant and
6 depreciation work paper appears to accept Ms. Stutz's recommended plant cost
7 reductions, but her work paper fails to recognize:

8 a. Ms. Stutz's plant cost additions to water mains of \$19,666 (CAS positive
9 adjustment of \$4,055 vs. DFS negative adjustment of \$23,721);

10 b. Ms. Stutz's sewer pumping equipment of \$15,936 (CAS positive
11 adjustment of \$15,936 vs. DFS adjustment of zero); and

12 c. Ms. Stutz's general plant of \$4,800 (CAS positive adjustment of \$2,400
13 water and \$2,400 sewer vs. DFS adjustment of zero).

14 5. The ORS fails to acknowledge addition depreciation and CIAC
15 amortization as a pro forma "known" change.

16 All of these omissions and adjustments have significant impacts on the
17 depreciation related components of the revenue requirement and they render the
18 ORS calculations from Mr. Sullivan unreliable.

19
20 **Q. You mentioned your main focus is the accumulated depreciation issues you**
21 **are addressing. Please state the problems you found within Mr. Sullivan's**
22 **work papers and exhibits.**

1 A. One of the major issues with ORS's current adjustments is the absence of retirement
2 units properly reducing accumulated depreciation. Mr. Sullivan's calculation of
3 accumulated depreciation simply adds this year's depreciation expense to last
4 year's balance which is incorrect. This methodology fails to include or consider the
5 impacts of retirement units. Regulatory accounting requires that upon retirement
6 of a plant asset the plant account is to be reduced by the original cost of that asset
7 and accumulated depreciation is also reduced by the original cost of the asset,
8 adjusted for any applicable salvage and/or removal costs.

9 Additionally, while ORS does reduce depreciation expense for retirement
10 units, Mr. Sullivan's work paper incorrectly shows a 2011 and 2012 depreciation
11 expense reductions recorded prior to the retirement of treatment equipment in the
12 amount of \$2,540.06 that was made in 2013.

13 Mr. Sullivan's calculations are further inconsistent with Ms. Stutz's
14 calculations in the 2011 case. The balances rolled-forward by Mr. Sullivan do not
15 tie to the plant and accumulated depreciation balances on Ms. Stutz's Audit Exhibit
16 CAS-5 for the June 30, 2011 test-year in the prior rate case.

17 Mr. Sullivan also deviates from the service life assigned by ORS in the
18 previous case by changing, without explanation or reason, some of the service lives
19 from those recommended by ORS in the last rate case.

20 These omissions and adjustments have significant impacts on the
21 depreciation related components of the revenue requirement and require the
22 correction of Mr. Sullivan's calculations of accumulated depreciation and
23 depreciation expense.

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2 **Q. Do you have a recommendation regarding the accumulated depreciation**
3 **component of rate base for this case?**

4 A. Yes. DIUC has been consistent in methodology and service lives from its inception
5 and its calculations are therefore more appropriate. I have provided the calculation
6 of accumulated depreciation rolled-forward from 1987 in prior rate cases. A similar
7 spreadsheet reflecting accumulated depreciation through the December 31, 2014
8 test-year is provided in Exhibit GCW-R2 that supports the accumulated
9 depreciation as booked by DIUC as well as the balances reported in the Utility
10 Annual Reports to the Public Service Commission.

11 As I have pointed out, the ORS calculation of accumulated depreciation is
12 impacted by erroneous plant balances, regulatory accounting discrepancies,
13 inconsistencies, and arbitrary choices and judgements.

14 DIUC's calculation of accumulated depreciation has been consistent; it
15 reflects proper regulatory accounting; and it makes the appropriate known and
16 measurable adjustments.

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18 **Q. Does this conclude your testimony?**

19 A. Yes.

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